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**ADMINISTRATION CALLS ON JAPAN TO MAKE PROGRESS UNDER
AUTO AGREEMENT, DESPITE RECESSION**

The Clinton Administration, in its semi-annual auto monitoring report released today, urged the Japanese Government to take additional concrete steps to improve market access under the Automotive Agreement, the economic slowdown in Japan notwithstanding.

“Japan’s recession is compounding the trade and regulatory barriers that have long impeded U.S. auto and auto parts sales to Japan,” said U.S. Trade Representative Charlene Barshefsky. She continued, “Excessive regulation and barriers to competition block U.S. exports and hurt Japan’s own efforts to restore growth and prosperity. We are making some progress under the Agreement, but it is critical that Japan take further steps to open and deregulate its automotive market to achieve the goals of our Agreement and to strengthen its own economy.”

Secretary of Commerce William M. Daley stated, “Japan’s economic difficulties have clearly exacerbated market access problems for U.S. automotive manufacturers in Japan. We urge the new Japanese Government to undertake measures that would accelerate progress under the Agreement and help stimulate the Japanese economy. During these difficult economic times, it is even more crucial that Japan take actions that would further open and deregulate this important sector.”

The report, which notes the disproportionate impact of Japan’s recession on foreign automakers, assesses progress based on 17 objective criteria included in the Agreement and highlights areas where additional Japanese Government efforts are needed.

- Foreign automakers are losing share in a shrinking market; sales in Japan of vehicles produced by U.S.-based auto manufacturers are down 26 percent during the first five months of 1998 while the overall Japanese automotive market diminished by 17 percent during the same period. At the same time, the recession has compounded the difficulties faced by U.S. automakers in adding new, high quality dealerships needed to gain direct

and fair access to Japan's automotive market. The "big three" have added 187 new franchise agreements with Japanese dealers since the signing of the Agreement, an increase of 45 since the last auto monitoring report. While Japanese Government efforts have improved the competitive environment to some degree, additional steps are needed to eliminate persistent business practices that unreasonably restrict competition in this sector.

- The pace of deregulation in the auto parts aftermarket continues to be haltingly slow. To achieve further progress under the Agreement, the Japanese Government needs to pursue deregulatory actions in areas affecting aftermarket sales, including periodic vehicle inspections; disassembly repair regulations; certification of auto mechanics; and other regulations of government-certified garages.
- U.S. auto parts exports to Japan continued to grow and rose 12 percent in the first quarter of 1998 while sales of U.S.-made auto parts to Japanese transplants grew 10 percent in the Japanese fiscal year ending last March 31. However, with new purchase orders beginning to decline and little momentum for meaningful deregulation, concerns that progress could stall or even reverse over the coming months are growing.

The semi-annual report was the fifth to be issued by the USTR-Commerce co-led interagency task force formed to monitor progress under the Agreement.

NOTE: *This report is available on the USTR web-site at www.ustr.gov in the "Reports" section, and on the Department of Commerce web-site at www.ita.doc.gov\auto.*